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United States General Accounting Office
Washington, DC 20548

August 1, 2001

Mr. William D. Hansen
Deputy Secretary
Department of Education

Dear Mr. Hansen:

It was a pleasure meeting with you last week, and we look forward to working with you on a proactive basis to help the Department of Education address its major management challenges. Key among these management challenges is addressing the issues that have resulted in our "high-risk" designation of Education's Student Financial Assistance (SFA) programs. As you know, in 1990 we designated SFA's programs as high-risk due to long-standing conditions that make the program highly susceptible to fraud, waste, abuse, or mismanagement. While many of the conditions we have identified in our series of reports on high-risk programs have been addressed, significant issues remain and therefore our high-risk designation continues.¹

As you requested, we have compiled the attached summary of the major actions that need to be taken in order for SFA's programs to be removed from our high-risk list. This summary includes recommendations and other actions that are critical to addressing the underlying root causes that have resulted in the high-risk designation of SFA's programs. These issues generally center around the need to

- Strengthen financial management and internal controls such that relevant, reliable, timely information is available to efficiently and effectively manage day-to-day operations and provide adequate stewardship and accountability
- Implement an integrated set of information systems that will enable SFA to efficiently manage and effectively control post secondary education assistance programs and administer high quality related services to students, colleges and universities, and financial institutions


¹ High Risk Series: An Update(GAO-01-263, January 2001)

- Maintain a balanced management approach that seeks to minimize noncompliance and default rates while still promoting the widespread use of the program

In addition, we currently have on-going work that will result in recommendations that are likely to be of significance to the high-risk designation, including our improper payments review, management review of SFA, and review of SFA's systems integration efforts. As this work progresses, we will keep you and your team informed of issues that need to be added to the list we are providing today.

We have found that the only way for an agency to be successful in addressing serious management challenges and therefore to be removed from the high risk list is to have (1) a demonstrated strong commitment and top leadership support to address the risks, (2) the capacity to resolve the risks, (3) a comprehensive corrective action plan, (4) a program instituted to monitor and independently validate the effectiveness and sustainability of corrective measures, and (5) the ability to demonstrate progress in having implemented corrective measures. We are encouraged by your sense of urgency and commitment to addressing the Department's management challenges. We commend you for your efforts to date and look forward to working with you in the future on these very important issues.

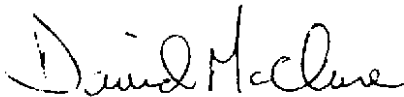
Sincerely yours,



Cornelia Ashby *for*
Director, Education, Workforce,
and Income Security



Linda Calbom
Director, Financial Management
and Assurance



David McClure
Director, IT Management Issues

ACTIONS NEEDED FOR REMOVAL FROM GAO'S HIGH RISK LIST

Given that managing SFA is similar to operating a financial institution, strengthening financial management systems and controls is key to reducing SFA's exposure to fraud, waste, error and mismanagement. A collective set of key measurements of sound financial management include

- An unqualified audit opinion on the Department's financial statements
- Full compliance with the Federal Financial Management Improvement Act
- Correction of all material internal control weaknesses identified in the financial statement audit

The ultimate goal of good financial management is to have strong systems and controls that produce timely, relevant, reliable information throughout the year so that it is available to program managers for informed decision making purposes. The recommendations listed under items 1-3 below were made by the agencies' outside auditors and are key to achieving this goal. The recommendations were made to address identified material internal control weaknesses, which are also listed. While these recommendations relate to the agency as a whole, they are generally applicable to SFA and therefore are key to its removal from the high risk list.

1. Financial Management Systems and Financial Reporting Need to Be Strengthened

Recommendations:

- Complete the implementation plan for the replacement of the general ledger software package and ensure the transition occurs in a timely and documented manner. In addition, the Department should ensure that the new general ledger software package will meet its financial reporting needs, including an automated closing process and interim reporting capabilities, thereby facilitating the preparation of financial statements by reporting group and at the consolidated level.
- Develop and enhance procedures for account analysis to ensure that periodic analyses are completed that will detect errors and irregularities in a timely manner.
- Enhance policies and procedures surrounding the preparation and review of adjustments and provide training to ensure that individuals preparing and reviewing the adjustments receive sufficient guidance to meet financial reporting objectives.

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- Search for duplicate payments and research improper payments that are identified. In addition, the Department should enhance its current control procedures to ensure that duplicate payments are prevented and/or detected in a timely manner.
- Review and enhance current policies and procedures for controlling the disbursement process. The policies and procedures should ensure that an adequate segregation of duties exists, supervisory reviews are appropriately implemented, and all transactions are properly processed and supported with documentation.
- Assess the roles and responsibilities of each Departmental office (including OCFO, SFA, and Budget Service) involved with the financial reporting process to ensure that appropriate resources and tools are available to achieve the financial reporting objectives established by management.

2. Reconciliations Need to be Improved

Recommendations:

- Update current policies and procedures surrounding reconciliations of all significant accounts and programs, including budgetary accounts and the reconciliation of subsidiary ledgers or feeder systems to FMSS. These policies and procedures should be specific in order to provide sufficient guidance to the Department's personnel. The Department should review its policies and procedures on a regular basis to ensure that they remain current and are achieving management's objectives.
- Perform reconciliations of all significant accounts and programs, both proprietary and budgetary, on at least a monthly basis. Reconciliations should also be performed between subsidiary ledgers or feeder systems and FMSS on a monthly basis. The reconciliations should include documentation of the research performed and the resolution of the issue. All differences identified should be researched and resolved in a timely manner. In addition, a supervisory review of the reconciliations should be performed. Pertinent reconciliations performed by SFA and other Department offices should be coordinated with the Financial Management Office within OCFO.
- Resolve unreconciled differences specific to the Budget Clearing and suspense accounts on a timely basis. In addition, determine the disposition of the funds that will be placed in the Treasury receipt account.

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3. Controls Surrounding Information Systems Need Enhancement

Recommendations:

- Finalize development of the business continuity and disaster recovery plans for the EDCAPS applications and the underlying infrastructure. Once developed, the plans should be tested and updated regularly to assess their effectiveness.
- Finalize the implementation of effective logging and monitoring controls for the Windows NT platform that supports EDCAPS to allow effective detection and resolution of security relevant events.
- Strengthen the system software change management process to provide effective controls over authorization, testing and documentation of system software changes.
- Complete corrective actions on the information technology security program noted in the fiscal year 2000 FNVU report.

4. A balanced management approach should be pursued. This includes

- vigorously pursuing default management and prevention strategies,
- striking an appropriate balance between providing technical assistance to schools and program monitoring to ensure compliance with laws and regulations, and
- obtaining the human capital and other resources needed to ensure the sustained availability of required data, information systems, and sound management.